

Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 /107 W

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R 191122Z AUG 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1194

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 3441

DEPT PASS TREASURY AND FRB

EO 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC DEVELOPMENTS: WEEK OF AUG 10-16

1. SUMMARY: HEAVY DEMAND FOR SWISS FRANCS RESULTING FROM A SHIFT OUT OF D MARKS AND A TECHNICAL REACTION TO THE APPRECIATION OF THE DOLLAR OVER THE PAST TWO WEEKS PRODUCED A WEAKENING OF THE SPOT DOLLAR AGAINST THE SF. FINANCE MINISTER CHEVALLAZ WILL ATTEND A SEPTEMBER MEETING IN BRUSSELS TO DISCUSS WITH MEMBER COUNTRIES SWISS ASSOCIATION WITH THE EUROPEAN SNAKE. THE SNB IS CONSIDERING THE IMPOSITION OF ADDITIONAL CONTROLS ON FOREIGN EXCHANGE TRANSACTIONS. THE LIQUIDITY SITUATION WAS NORMAL THIS WEEK AND NEW BOND ISSUES WERE WELL RECEIVED. A GOVERNMENT REPORT ON UNCLASSIFIED UNCLASSIFIED

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SWITZERLAND'S FOREIGN TRADE SITUATION DOES NOT ANTICIPATE ANY IMPROVEMENT IN THE EXPORT PICTURE THIS YEAR.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: THE SPOT DOLLAR WAS RELATIVELY STEADY IN QUIET TRADING DURING THE FIRST THREE DAYS OF THE WEEK, BUT ON THURSDAY THE DOLLAR BEGAN TO WEAKEN, REACHED A LOW OF SF 2.6475 AT THE OPENING ON FRIDAY, AUG 15, THEN RECOVERED SOMEWHAT TO CLOSE THE WEEK 1.1 PERCENT BELOW THE OPENING ON THE PREVIOUS MONDAY. FOREIGN EXCHANGE TRADERS ATTRIBUTED THE DOLLAR'S DECLINE TO TWO FACTORS: 1) SALES OF D MARKS FOR SF PUSHED THE FRANC UP AGAINST ALL CURRENCIES AND 2) A TECHNICAL REACTION TO THE STEADY APPRECIATION OF THE DOLLAR OVER THE PAST TWO WEEKS. THE SWISS NATIONAL BANK (SNB) INTERVENED SEVERAL TIMES DURING THE WEEK IN SUPPORT OF BOTH THE DOLLAR AND THE DM. THE GOLD MARKET WAS ACTIVE AND PRICES WERE LOWER. RATES AS FOLLOWS:

	8/11 (OPEN)	8/15 (CLOSE)
SPOT DOLLAR	SF 2.6970	SF 2.6670
DISCOUNTS		
ONE MONTH	- 4.0	- 4.6
3 MONTHS	- 3.5	- 4.1
6 MONTHS	- 3.3	- 3.6
SF/IM	SF 104.26	SF 103.55
GOLD	\$163.00	\$161.75

3. SWITZERLAND AND THE SNAKE: ACCORDING TO A GOS COMMUNIQUE RELEASED THIS WEEK, FINANCE MINISTER GEORGE-ANDRE CHEVALLAZ WILL LEAD A SWISS DELEGATION TO THE SEPT 22 MEETING IN BRUSSELS OF FINANCE MINISTERS FROM THE COUNTRIES PARTICIPATING IN THE JOINT EUROPEAN MONETARY FLOAT. CHEVALLAZ WILL DISCUSS THE TERMS AND CONDITIONS OF SWISS ASSOCIATION WITH THE SNAKE. HIS PARTICIPATION REPRESENTS THE END OF SWITZERLAND'S TECHNICAL TALKS WITH SNAKE MEMBERS AND THE BEGINNING OF NEGOTIATIONS AT THE POLITICAL LEVEL. THE COMMUNIQUE MADE CLEAR THAT CHEVALLAZ WOULD DISCUSS ONLY MONETARY MATTERS DIRECTLY RELATED TO THE SNAKE. QUESTIONS SUCH AS SWISS BANKING SECRECY AND TAX LAWS WILL NOT BE CONSIDERED

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FOR DISCUSSION.

4. FOREIGN EXCHANGE CONTROLS: PRESS REPORTS INDICATE THAT THE SNB IS CONSIDERING SOME ADDITIONAL CONTROLS ON FOREIGN EXCHANGE TRANSACTIONS IN SWITZERLAND. AMONG THE MEASURES UNDER CONSIDERATION ARE: A) IMPOSITION OF A STAMP TAX ON FOREIGN EXCHANGE TRANSACTION, B) CREATION OF AN OFFICIAL FOREIGN EXCHANGE MARKET, AND C) ESTABLISHING A LICENSING SYSTEM FOR FOREIGN EXCHANGE DEALERS AND BROKERS. THE PURPOSE OF THESE MEASURES WOULD BE TO CONTROL THE SIZE OF THE MARKET,

WHICH THE SNB FEELS HAS GROWN TOO LARGE, AND TO TRY
TO PREVENT BANK FAILURES RESULTING FROM FOREIGN EXCHANGE
LOSSES. THE COMMERCIAL BANKS SEE LITTLE NEED FOR MORE
CONTROLS AND ARE FIRMLY OPPOSED TO THE STAMP TAX. THE BANKS
ARE LESS STRONGLY OPPOSED TO CREATION OF AN OFFICIAL MARKET
AND HAVE NO REAL OBJECTION TO THE LICENSING PLAN.

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5. MONEY AND CAPITAL MARKETS: BANK LIQUIDITY WAS IN GOOD
SUPPLY THIS WEEK WITH NORMAL DEMAND; HE CALL MONEY RATE
EASED LOWER FROM 1.0 PERCENT IN THE EARLY PART OF THE
WEEK TO A NOMINAL 0.5 PERCENT ON FRIDAY, AUGUST 15. THE
RELEASE AT THE END OF AUGUST OF MORE THAN SF 800 MILLION
FROM BLOCKED ACCOUNTS AT THE SNB (THIS IS THE REMAINING
BALANCE OF THE PENALTY DEPOSITS MADE BY THE COMMERCIAL
BANKS WHICH EXCEEDED THE CREDIT CEILING IN FORCE UNTIL
THE END OF APRIL) SHOULD PROVIDE AMPLE BANK LIQUIDITY FOR
THE END-OF-MONTH POSITIONING. ACTIVITY ON THE SWISS

STOCK EXCHANGES WAS LOW TO MODERATE AND PRICES DECLINED;
THE SKA INDEX WAS DOWN FROM 187.6 (END 1959 EQUALS 100)
ON AUGUST 8, TO 184.8 ON AUG 15. THE CAPITAL MARKET
IS ATTRACTING CONSIDERABLE INVESTOR INTEREST AND NEW
DOMESTIC BOND ISSUES ARE IN HEAVY DEMAND. FOREIGN ISSUES
ARE SOMEWHAT LESS ATTRACTIVE BUT MOST ARE HAVING LITTLE
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DIFFICULTY IN REACHING FULL SUBSCRIPTION. THE HIGH LEVEL
OF DEMAND FOR FIX-YIELD SECURITIES IS PUSHING LONG-TERM
INTEREST RATES LOWER. CANTONAL BOND ISSUES, WHICH AT
THE END OF LAST YEAR WERE SELLING BELOW PAR WITH A COUPON
OF 8.0 PERCENT, ARE NOW BEING TAKEN UP AT PAR OR BETTER
WITH A COUPON OF 7.0 PERCENT. THE MEDIAN YIELD ON OUT-
STANDING CONFEDERATION BONDS CONTINUED ITS DOWNWARD
SLIDE BY DROPPING FROM 6.37 PERCENT ON AUG 8 TO 6.32 PERCENT
ON AUG 15.

ECONOMIC

6. REPORT ON FOREIGN TRADE: THE FEDERAL COUNCIL'S SEMI-
ANNUAL REPORT ON SWITZERLAND'S FOREIGN TRADE SITUATION WAS
RELEASED THIS WEEK. THE REPORT STATES THAT A COMBINATION
OF WORLDWIDE RECESSION AND THE APPRECIATION OF THE SF
HAVE SERIOUSLY REDUCED EXPORTS. AS A RESULT, THE EXPORT
SECTOR HAS CEASED TO BE PRINCIPAL DRIVING FORCE BEHIND
THE DOMESTIC ECONOMY. IN THE FIRST PART OF 1975, ONLY
THE MACHINE INDUSTRY HAS REGISTERED AN EXPORT GROWTH (UP
3.6 PERCENT) WHILE ALL OTHER EXPORT INDUSTRIES HAVE EX-
PERIENCED DECLINES RANGING FROM 7 TO 18 PERCENT. EXPORTS
TO THE US, THE UK, WEST GERMANY, AND JAPAN ARE DOWN THE
MOST, WHILE EXPORTS TO OPEC COUNTRIES, EASTERN EUROPE, AND
CHINA HAVE INCREASED. THE REPORT STATES THAT EXPORTS WILL
REMAIN DEPRESSED UNTIL THERE IS A PICK UP IN ECONOMIC ACTI-
VITY IN THE MAJOR MARKET COUNTRIES OF THE US, WEST GERMANY,
AND JAPAN. NO REAL IMPROVEMENT IN THE EXPORT SITUATION
CAN BE EXPECTED THIS YEAR. DESPITE THE DROP IN
EXPORTS, IMPORTS ARE DOWN EVEN MORE DUT TO THE DOMESTIC
RECESSION AND SWITZERLAND'S TRADITIONAL TRADE DEFICIT IS
SHRINKING. IF PRESENT TRENDS CONTINUE, THE REPORT PREDICTS
THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT WILL CLOSE WITH
A 1975 SURPLUS HIGHER THAN THE SF 510 MILLION RECORDED IN
1974 (SEE BERN 3330.
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